

CITY OF CLEARFIELD

**INDEPENDENT ACCOUNTANT'S REPORT
ON THE STATUS OF PERIODIC EXAMINATION
FINDINGS AND RECOMMENDATIONS**

**FOR THE PERIOD
DECEMBER 1, 2015 THROUGH MAY 31, 2016**

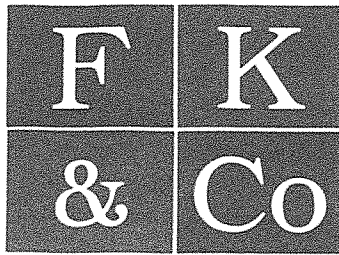
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City of Clearfield

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
<u>(Before January 2016)</u>		
Sharon Brown	Mayor	Jan 2018
Linda Anderson	Council Member	Jan 2018
Lance Leonard	Council Member	Jan 2018
Karen Larsen	Council Member	Jan 2018
Chris England	Council Member	Jan 2016
J.D. Mackey	Council Member	Jan 2016
Pam Nickell	City Clerk	Indefinite
Sherri Briggs	Utility Clerk	Indefinite
Matthew Hanson	City Attorney	Indefinite
<u>(After January 2016)</u>		
Sharon Brown	Mayor	Jan 2018
Linda Anderson	Council Member	Jan 2018
Lance Leonard	Council Member	Jan 2018
Karen Larsen	Council Member	Jan 2018
Luke Larsen	Council Member	Jan 2020
Jennie Jeanne Stephens	Council Member	Jan 2020
Pam Nickell	City Clerk	Indefinite
Sherri Briggs	Utility Clerk	Indefinite
Matthew Hanson	City Attorney	Indefinite



FALLER, KINCHELOE & CO, PLC

Certified Public Accountants

Independent Accountant's Report on the Status of Periodic
Examination Findings and Recommendations

To the Honorable Mayor
and Members of City Council:

Faller, Kincheloe & Co, PLC issued a Periodic Examination Report dated September 12, 2014 on the City of Clearfield, Iowa covering the period July 1, 2013 through June 30, 2014 pursuant to Chapter 11.6 of the Code of Iowa. The report included certain findings and recommendations pertaining to the City's financial processes and compliance with laws and regulations.

This report includes the findings and recommendations from the City's Periodic Examination Report dated September 12, 2014 and the current status of the City's implementation of the recommendations included in that report.

The City Council has a fiduciary responsibility to provide oversight of the City's operations and financial transactions. Oversight is typically defined as the "watchful and responsible care" a governing body exercises in its fiduciary capacity. Many of the findings included in this report indicate the City Council needs to exercise additional fiduciary oversight.

Oversight by the City Council is essential and should be an ongoing effort by all members. The City Council should exercise due care and require and review pertinent information and documentation to ensure the reliability of financial information and compliance with laws and regulations. Appropriate policies and procedures should be adopted, implemented and monitored to ensure compliance.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of the City of Clearfield and other parties to whom the City of Clearfield may report. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the City of Clearfield during the course of our follow-up procedures. Should you have questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.


Faller, Kincheloe & Co, PLC

October 17, 2016

CITY OF CLEARFIELD

Report on the Status of Periodic Examination Findings and Recommendations

Findings Reported in the Periodic Examination Report dated September 12, 2014:

(A) Segregation of Duties – One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. Generally, one individual has control over each of the following areas for the City:

1. Cash – handling, reconciling and recording.
2. Receipts – opening mail, collecting, depositing, journalizing, reconciling and posting.
3. Disbursements – purchasing, invoice processing, check writing, mailing, reconciling and recording.
4. Payroll – recordkeeping, preparation and distribution.
5. Utilities – billing, collecting, depositing and posting.
6. Financial reporting – preparing and reconciling.
7. Journal entries – preparing and journalizing.

Recommendation – We realize segregation of duties is difficult with a limited number of employees. However, the City should review its control procedures to obtain the maximum internal control possible under the circumstances utilizing currently available staff, including elected officials. Independent reviews of reconciliations should be evidenced by the signature or initials of the reviewer and the date of the review.

Current Status – Not corrected. The recommendation is repeated.

(B) Monthly Bank Reconciliations – Although monthly bank reconciliations are prepared, the reconciliations are not compared to the City's general ledger fund balances. For the two months received, the bank and book balances did not properly reconcile for some bank accounts. In addition, the bank reconciliations are not independently reviewed.

Recommendation - The City should establish procedures to ensure bank and investment account balances are reconciled to the general ledger monthly. Variances, if any, should be reviewed and resolved timely. In addition, an independent person should review all bank reconciliations and document their review by signing or initializing and dating the reconciliations.

Current Status – Partially corrected. For the period tested, monthly bank reconciliations agree to the City's records. The bank reconciliations were not independently reviewed.

(C) Clerk's Report – Although monthly Clerks' reports are prepared, in some cases the reports do not agree with the general ledger or bank balances.

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Report on the Status of Periodic Examination Findings and Recommendations

Recommendation – The City should establish procedures to ensure the monthly Clerk's reports reconcile to the general ledger and bank balances.

Current Status – Not corrected. The recommendation is repeated.

(D) City Council Minutes – The following were identified:

- All four City Council meetings tested were not signed as required by Chapter 380.7 of the Code of Iowa.
- Chapter 372.13(6) of the Code of Iowa requires minutes of all City Council proceedings be published within fifteen days of the meeting. Minutes for one meeting tested were not published within fifteen days, and minutes for two meetings tested were not published at all.
- Chapter 372.13(6) of the Code of Iowa requires the minutes of all City Council proceedings to include total disbursements from each fund and a summary of all receipts. We noted that these requirements were not met by the City for some meetings tested.
- Ordinances were not always published as required by Chapter 380.7 of the Code of Iowa.

Recommendation – The City should comply with Chapters 380.7 and 372.13(6) of the Code of Iowa. In addition, the City should ensure the minutes, total disbursements from each fund, summary of all receipts and ordinances are published as required.

Current Status – Partially corrected. All four City Council meetings tested were signed. Minutes of three out of four City Council proceedings were published within fifteen days of the meeting. The City Council minutes included total disbursements from each fund and a summary of all receipts. For the minutes tested, ordinances were published.

(E) Investment Policy – The City has not adopted a written investment policy as required by Chapter 12B.10B of the Code of Iowa.

Recommendation – The City should adopt a written investment policy that complies with the provisions of Chapter 12B.10B of the Code of Iowa.

Current Status – Not corrected. The recommendation is repeated.

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Report on the Status of Periodic Examination Findings and Recommendations

- (F) Official Depositories – A resolution naming official depositories has not been adopted by the City Council as required by Chapter 12C.2 of the Code of Iowa.

Recommendation – A resolution in amounts sufficient to cover anticipated balances at all approved depositories should be adopted by the City Council as required.

Current Status – Partially corrected. The City has a depository resolution, but it does not state the maximum amount to be deposited at the financial institution.

- (G) Certified Budget – Disbursements during the year ended June 30, 2014 exceeded the amounts budgeted in the culture and recreation, community and economic development and the business-type activities functions. Chapter 384.20 of the Code of Iowa states, in part, “Public monies may not be expended or encumbered except under an annual or continuing appropriation.”

Recommendation – The budget should have been amended in accordance with Chapter 384.18 of the Code of Iowa before disbursements were allowed to exceed the budget.

Current Status – Not corrected. Actual expenses in the year ended June 30, 2015 exceeded the budget in the public safety, culture and recreation, community and economic development, general government, and business-type activities functions.

- (H) Reconciliation of Utility Billings, Collections and Delinquent Accounts - Utility billings, collections and delinquent accounts were not reconciled throughout the year and a delinquent account listing was not prepared monthly.

Recommendation – Procedures should be established to reconcile utility billings, collections and delinquent accounts for each billing period. The City Council or other independent person designated by the City Council should review the reconciliations and monitor delinquent accounts. The reviews should be documented by signing or initialing and dating the reconciliations.

Current Status – Not corrected. The recommendation is repeated.

- (I) Chart of Accounts – The City has not fully implemented the Uniform Chart of Accounts (COA) for Iowa City Governments approved by the City Finance Committee on September 25, 2002.

Recommendation – To provide better financial information and control, the COA, or its equivalent, should be followed.

Current Status - Corrected.

CITY OF CLEARFIELD

Report on the Status of Periodic Examination Findings and Recommendations

- (J) Sales Tax – The City paid sales tax on an invoice. Iowa governments are not required to pay sales tax on purchases.

Recommendation – The City implement procedures to ensure sales tax is not paid on future purchases.

Current Status – Corrected. For the period tested, the City did not pay sales tax on an invoice.

- (K) Business Transactions – Business transactions between the City and City officials or employees are detailed as follows:

Name, Title, and Business Connection	Transaction Description	Amount
J.D. Mackey, City Council Employee of Feldhacker	Construction services	\$32,601
Chris England, City Council Employee of Briggs Construction	Construction services	\$586
Lance Leonard, City Council Owner of Leonard Construction	Construction services	\$600

In accordance with Chapter 362.5(k) of the Code of Iowa, the above transactions with Chris England and Lance Leonard do not appear to represent a conflict of interest since the total transactions were less than \$2,500 during the fiscal year.

In accordance with Chapter 362.5(k) of the Code of Iowa, the above transactions with J.D. Mackey may represent a conflict of interest since the total transactions were more than \$2,500 during the fiscal year and the transactions were not competitively bid.

Recommendation - The City should consult legal counsel to determine the disposition of this matter.

Current Status – Corrected. The only transaction identified during the period tested between the City and City officials or employees was payment for gravel for \$690 to B.C. Concrete. Business transactions between the City and City officials or employees appear to be in compliance with the Code of Iowa.

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Report on the Status of Periodic Examination Findings and Recommendations

- (L) Local Option Sales and Services Tax – The City imposed a local option sales tax in the City with receipts to be allocated 100% for infrastructure and community betterment purposes. The local option sales tax receipts are recorded in the General Fund. Documentation was not maintained to demonstrate that the local option sales tax receipts were spent in accordance with the provisions of the referendum authorizing the collection of the tax.

Recommendation – The City should establish a Special Revenue, Local Option Sales Tax Fund to record the collection, disbursement and balance of all local option sales tax funds to document compliance with the local option sales tax ballot referendum provisions.

Current Status – Not corrected. The recommendation is repeated.

- (M) Transfers - The City transferred surplus funds from the Enterprise, Gas Fund to the General Fund during the fiscal year. The City did not make this transfer by resolution of the City Council, as required by the City Finance Committee Administrative Rules, IAC Section 545-2.5(5).

Recommendation – In the future, the City transfer surplus funds by resolution as required.

Current Status – Corrected. The City approved Resolution 2016-02 to transfer \$4,984.32 from the General Obligation Loan Note Fund to the General Fund in order to close the account.

- (N) Annual Financial Report – Chapter 384.22 of the Code of Iowa requires the City's Annual Financial Report contain a "summary for the preceding fiscal year of all collections and receipts, all accounts due the city, and all expenditures, the current public debt of the City..." The City's Annual Financial Report reported receipts, disbursements and fund balances which do not agree with the City's records. In addition, the City did not report the debt on the City's Annual Financial Report.

Recommendation – The City should ensure all amounts included in future Annual Financial Reports are supported by the amounts recorded in the City's records. In addition, the City should ensure that all debt of the City is included on future Annual Financial Reports.

Current Status – Not corrected. The recommendation is repeated.

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- (O) Payment of General Obligation Notes – Chapter 384.4 of the Code of Iowa states in part, “Monies pledged or available to service general obligation bonds, and received from sources other than property taxes, must be deposited in the debt service fund.” During the year ended June 30, 2014, the City paid a portion of the general obligation notes from the Enterprise, Sewer Fund.

Recommendation – The City should transfer funds to the Debt Service Fund to pay the general obligation notes in the future.

Current Status – Not corrected. The recommendation is repeated.

- (P) Sewer Revenue Bond – The City has a sewer revenue bond payable to the United States Department of Agriculture (USDA). However, neither the City nor the USDA could locate the debt agreement in relation to this sewer revenue bond. As a result, the City is unable to determine compliance with the sewer revenue bond provisions.

Recommendation – The City work with legal counsel to resolve this issue.

Current Status – Corrected. The City found the debt agreement for the sewer revenue bond payable to the United States Department of Agriculture (USDA).

- (Q) Payroll – Timesheets tested did not include evidence of supervisory approval. In some cases, timesheets were not kept by employees. We could not locate City Council approval of the wage rates for all employees tested. One employee was paid payroll in advance of the hours the employee worked.

Recommendation – All timesheets should be reviewed and approved by supervisory personnel prior to processing payroll. Timesheets should be required to be kept for all City personnel. The City Council should approve pay rates for all City employees, with the approval documented in the City Council minutes. In addition, City employees should not be paid in advance of the related hours worked.

Current Status – Partially corrected. For two employees tested, timesheets did not include evidence of supervisory approval. Timesheets were recorded by all hourly employees tested. The City Council minutes include the Resolution Setting Salaries and Wages for Employees of the City 2015-01 and 2016-03. No indication was found that any employees were paid in advance of the hours worked either in the paychecks tested or in other checks tested.